Medicare Prescription Drug, Improvement, and Modernization Act of 2003: Implications for States

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Introduction

On December 8th, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. This law offers a new voluntary program to provide outpatient prescription drugs for those who are eligible for Medicare. The new optional benefit is created as Medicare Part D by amending the Social Security Act. This information brief will address the aspects of the bill that are most significant for state budgets. We will update you as additional information becomes available on other potential impacts on state budgets.

The Basic Benefit

Beginning on January 1, 2006, the standard benefit provided under Medicare Part D will include the following:

- A $250 annual deductible;
- Medicare pays 75 percent of the costs between $251 until costs reach $2,250;
- There is no coverage between $2,250 and $3,600;
- Catastrophic coverage begins after out of pocket expenses reach $3,600, for a total of $5,100 worth of drugs. Once an individual reaches the catastrophic limit, the program would pay for all costs except for nominal cost-sharing.
- Monthly premiums are estimated at $35 per month for 2006.

These amounts will be updated annually to reflect the increase in per capita drug expenses. The benefit will be provided through stand-alone prescription drug plans or comprehensive plans under Medicare Advantage.

Coverage of Dual Eligibles

Those currently enrolled in Medicaid who are eligible for Medicare are eligible for the new Part D benefits. Full benefit dual eligibles with incomes up to 100 percent of the poverty level would pay no premiums and no deductibles. Co-payments for drugs would be $1 for generics and preferred drugs and $3 for all other drugs.

The federal government will assume additional financing for the dual eligibles over time. States will be required to make payments to the federal government each month that are equal to a "take back" factor that is set at 90 percent for 2006 and phased down to 75 percent for 2015 and

later years. This "take back" factor is multiplied by the number of dual eligibles enrolled in Part D with full Medicaid coverage in that month and a per capita amount that would estimate what states would have spent on prescription drugs under Medicaid in the absence of the Medicare bill. The per capita amount is based on a state's per capita Medicaid spending on Part D covered prescription drugs for dual eligibles in 2003. This amount is projected through 2006 by the growth in national per capita prescription drug expenditures. In 2007 and later years, the amounts increase by per capita growth in Part D spending.

The Secretary is required to notify each state by October 15 of the amount computed under the formula for the following year, beginning in 2006.

Retirees

The Act provides a subsidy to be paid for those sponsoring qualified retiree prescription drug plans. The payment is based on each individual who would be eligible for the new Part D program but is instead enrolled in another employer-sponsored program. A subsidy will be provided that equals 28 percent of costs actually paid between the amount of $250 and $5,000 indexed each year. Programs must have actuarially equivalent coverage of the standard prescription drug benefit and meet requirements for audits and disclosure to qualify.

Low-Income Subsidies

Individuals with incomes below 135 percent of poverty and have resources of no more than $6,000 per individual and $9,000 per couple would receive a full premium subsidy and pay only nominal cost-sharing to the catastrophic level. There would be no cost-sharing above the catastrophic level.

For individuals with incomes below 150 percent of poverty and assets of no more than $10,000 per individual and $20,000 per couple, there would be lower deductibles and reduced cost-sharing for spending below the catastrophic level. There would be a premium subsidy for individuals with incomes between 135 percent and 150 percent of the federal poverty level.

Disproportionate Share (DSH) Hospital Payments

DSH allotments will increase by 16 percent for fiscal 2004.

The conference agreement also raises the temporary floor for extremely low DSH states, as defined under current law, by 16 percent for fiscal 2004 through 2008.

Prescription Drug Cards

During the interim period before the drug benefit is available there will be a Medicare drug discount program. The program is not available to Medicaid eligible individuals. The cards will cost no more than $30 per year and will provide estimated discounts of 10 to 25 percent. Those on Medicare with incomes below 135 percent of poverty will not pay for discount drug cards and will receive a $600 subsidy toward drug purchases in 2004 and 2005. There will still be coinsurance charges. For those with incomes up to 135 percent of poverty, the coinsurance requirement is 10 percent.

State Pharmacy Assistance Programs

State Pharmacy Assistance programs may provide supplemental drug coverage to Part D enrollees. The Act appropriates $62.5 million for both fiscal 2005 and fiscal 2006 to states with state pharmacy assistance plans for enrollee education and coordination with the state program. The Act also establishes a State Pharmaceutical Assistance Transition Commission to develop a proposal for addressing transition issues. The Commission would report its findings to the President and Congress by January 1, 2005. The 30 states with state funded pharmaceutical programs face issues of coordination with the new Medicare benefit.

CBO Estimate

CBO estimates that states will have net savings of $17.2 billion over 2004-2013 in state Medicaid costs. In fiscal 2006, the net cost to states is $1 billion. Savings of $1 billion would begin in fiscal 2007 and would increase to $4 billion in fiscal 2013.

Additional Information

The following sources provide additional information on the new Medicare law:

House Committee on Ways and Means
http://waysandmeans.house.gov/

Kaiser Family Foundation
http://www.kff.org/

National Association of State Medicaid Directors
http://www.nasmd.org/

Congressional Budget Office
http://www.cbo.gov

If you would like additional information, please contact Stacey Mazer (smazer@nasbo.org or 202-624-8431) or Scott Pattison (spattison@nasbo.org or 202-624-8804) in NASBO's Washington D.C. office.